

Tracking European Commission priority initiatives in 2015 – Number 1.

Energy Union

New impetus for coordination and integration of energy policies in the EU

SUMMARY

The European Commission published a Strategy for a European Energy Union in February 2015, together with a Communication on electricity network interconnections. It focusses on energy security, completing the internal energy market, energy efficiency, decarbonisation, as well as research and innovation.

The Energy Union Strategy sets out a holistic approach aiming to coordinate and integrate the energy policies of the EU and its Member States, going far beyond Donald Tusk's 2014 proposal which had focussed on the security of gas supplies.

Implementation of the strategy will require several new pieces of EU legislation, to be adopted by European Parliament and Council under the ordinary legislative procedure. Experts and stakeholders have generally welcomed the strategy, but some see a conflict between decarbonisation of the energy system and the construction of pipelines and other infrastructure to diversify the EU's gas supply.



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Glossary and acronyms

ACER: Agency for Cooperation of Energy Regulators

ENTSO: European Network of Transmission System Operators (ENTSO-E for electricity, ENTSO-G for gas)

Interconnection: physical connections between energy networks of EU Member States. In the case of electricity, a country's degree of interconnection is measured as the ratio between the capacity of its interconnections to other countries and its own electricity production capacity.

Project of common interest (PCI): energy infrastructure project that strengthens the EU's internal energy market, enhances security of supply and contributes to EU energy and climate goals. PCIs may benefit from accelerated licensing procedures, favourable regulatory conditions, and access to financial support.

Energy Union Strategy

On 25 February 2015, the European Commission published the [framework strategy for a resilient Energy Union with a forward-looking climate change policy](#) (COM(2015) 80 final), as part of the Energy Union Package. Other elements of the package are a Communication on electricity interconnections ([COM\(2015\) 82 final](#)), and a second one on the EU's contribution to the international climate change negotiations ([COM\(2015\) 81 final](#)).

The proposed Energy Union aims to support a fundamental transformation of the EU energy system, in order to ensure a secure supply of sustainable energy that is competitive and affordable for consumers. The Commission sets out a vision of an integrated continent-wide energy system, based on competition and free flow of energy across borders, 'as if it were a 5th freedom'.

The Commission proposes a holistic strategy, in which EU-wide energy markets match supply with demand, in space and in time.¹

The Strategy is centred around five dimensions, and comprises 15 action points. The first dimension, **energy security, solidarity and trust**, focuses on the diversification of energy sources, suppliers and routes, cooperation among Member States, a stronger European role in global energy markets, and increased transparency on gas supply contracts.

A fully integrated internal energy market, the second dimension, aims at completing the internal energy market through creating an EU-wide energy retail market, completing implementation of the [third internal energy market package](#), strengthening the regulatory framework, and upgrading trans-border networks.

Energy efficiency, the third dimension, aims at securing energy supply by moderating energy demand. The Communication considers energy efficiency as 'an energy source in its own right', and encourages Member States to prioritise energy efficiency policies. Transport and buildings are targeted as sectors with great potential for energy efficiency measures.

The fourth dimension is the **decarbonisation of the economy** going hand in hand with the EU's ambitious climate policy. The Commission envisions the EU as the global hub for developing next-generation renewable energies. It aims to make the EU the world leader in the sector through preparing markets and grids for a growing proportion of renewable energy, and investing in advanced, sustainable alternative fuels.

The fifth and final dimension is **research, innovation and competitiveness**, focused on renewable energy and energy storage; consumer participation through smart grids, cities and homes; efficient energy systems and energy-neutral buildings; and sustainable transport systems. Additional research priorities are carbon capture and storage and nuclear energy, for those Member States that want to use them.

The action points listed in the Strategy include new legislation, implementation and enforcement of existing legislation, development of strategies, support and financing, actions by Member States as well as the use of external policy instruments. The following legislative and regulatory [proposals](#) are planned:

- revision of the existing security of gas supply Regulation (in 2015-16)
- revision of the Decision on Intergovernmental Agreements (2016)
- security of electricity supply (2016)
- new European electricity market design (2015-16)
- review of the regulatory framework, in particular the functioning of ACER and the ENTSOs (2015-16)
- review of energy efficiency legislation, in line with targets for 2030 (2015-16)
- a comprehensive road transport package (2016-17)
- legislation to achieve the 'at least 40%' greenhouse gas reduction target
- new Renewable Energy Package (2016-17)

Electricity interconnections – achieving the 10% target

The Commission's Communication on electricity interconnections ([COM\(2015\) 82 final](#)) sets out actions and instruments for making sure that all EU Member States have electricity interconnection links to other Member States of at least 10% of their own electricity production capacity by 2020. Increased interconnection between national electricity grids is expected to enhance security of supply, reduce energy prices through increased competition, and decarbonise energy by facilitating the transport of variable renewable energy (wind and solar) from producers to consumers. An integrated electricity grid could save European consumers €12-40 billion annually by 2030.² The focus of the Communication is on the implementation of existing legislation, as requested by the European Council in October 2014.

Implementation should be primarily through projects of common interest (PCI). The first PCI list includes 52 electricity interconnection projects. In order to speed up the projects, the TEN-E Regulation introduces a time limit of three and a half years for granting permits.³ The Commission will make use of all available financial instruments.⁴

From 2020 to 2030, the Commission sees the need for more cross-border interconnections (15% by 2030), electricity storage and smart grids to manage demand.

Some elements of the Energy Union are left open. Taking a cautious stance on common gas purchasing, the Commission will assess options for voluntary demand aggregation mechanisms for collective purchasing of gas during a crisis, for Member States that depend on a single supplier. With respect to capacity mechanisms (where energy suppliers are paid for keeping capacity in reserve), the Strategy considers that a fully functioning and interconnected energy market will reduce the need for such mechanisms. On the question of governance, 'the Commission will launch a dynamic governance process', linked to the European Semester but managed separately.

The Council (Energy and Environment Ministers) were due to discuss the Strategy on 5 and 6 March. The European Council is expected to consider it on 19-20 March. The Council is subsequently expected to adopt its position on 11-12 June.

Background

EU energy situation

The EU is dependent on energy imports – 53% of its energy consumption came from imports in 2013. Two thirds of the natural gas consumed and 85% of oil is imported. Security of energy supply is thus an important concern, in particular for Member States that have few indigenous energy sources and depend on a single supplier for most of their energy needs.

Over the past couple of years, issues of competitiveness and energy security have become increasingly important. The shale revolution in the US has resulted

in lower gas and electricity prices, giving US industries a competitive advantage over companies based in Europe. A 2014 [report on energy prices and costs](#) shows that energy costs are higher in the EU than in many other regions, and that the gap is widening. Inside the EU, there are significant differences in energy prices between Member States and industrial sectors. Rises in electricity prices are driven mostly by taxes and levies, and network costs.

The Ukraine conflict, EU sanctions on Russia and the cancellation of the South Stream pipeline have brought the security of gas supply sharply into the spotlight.

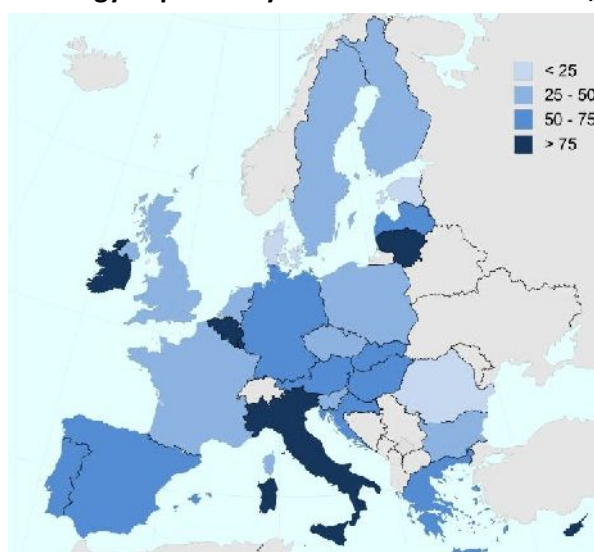
EU energy and climate policies

Cooperation on energy has been at the heart of European integration from the beginning, with the creation of the European Coal and Steel Community in 1952 and the European Atomic Energy Community (Euratom) in 1957.⁵ An internal market for electricity and gas in the European Union was established through three market liberalisation packages (adopted in 1990, 2003 and 2009), which provide for the 'unbundling' of energy production and supply from energy-transmission networks, as well as third-party access to gas storage facilities, reinforced consumer protection, and strengthened regulatory surveillance. In the area of climate action, the EU is committed to taking action to limit global warming. The EU's long-term objective is to reduce EU greenhouse gas (GHG) emissions by 80-95% by 2050, compared to 1990 levels. For the period up to 2020, the EU's targets – enacted in the 2009 climate and energy package – are for a 20% reduction in GHG emissions, a 20% market share for renewable energy sources, and a 20% improvement in energy efficiency. For the period 2020-30, the European Council endorsed a reduction in GHG emissions of at least 40%, a 27% target for renewable energy sources (share of all energy sources, binding at EU level) and a non-binding 27% target for (improved) energy efficiency.

Chronology

In April 2014, Poland's then-Prime Minister, Donald Tusk, called for a move beyond the internal energy market towards a true European energy union. [Tusk's proposal](#) was

Figure 1 – Energy dependency in the EU Member States, 2013



Data source: [Eurostat](#).

focussed on the security of gas supply and proposed common gas purchasing, in the context of the Ukraine crisis.

In May 2014, the Commission adopted a European Energy Security Strategy that sets out the key actions for the short, medium and long terms, to find solutions based on better coordination of national energy policies and speaking with a single voice.

In July 2014, Jean-Claude Juncker's [political guidelines](#) for the next Commission included 'A resilient Energy Union with a forward-looking climate change Policy' as one of ten priorities. In November 2014, Commission President Juncker designated Maroš Šefčovič as Vice-President for Energy Union. On 6 February 2015, the Latvian EU presidency organised a conference on the Energy Union in Riga.

Role and position of the European Parliament

Energy and climate policies are a shared competence between the EU and Member States. Future legislation related to the Energy Union is subject to codecision by the European Parliament (EP) and Council (ordinary legislative procedure). However, codecision does not extend to the choice of energy sources or the structure of energy supply.

The European Parliament's [resolution of 10 September 2013](#) on the internal energy market emphasised the need for consumer protection, and stressed that modernising energy infrastructure is essential. Moreover, the EP has repeatedly called for the creation of a 'European Energy Community'.

The EP study '[Mapping the Cost of Non-Europe, 2014-19](#)' estimates that an economically and physically more integrated energy market in Europe could deliver at least €50 billion in efficiency gains per year, based on the EP's own assessment and estimates from other sources.

A 2015 EP [study on the future of EU energy governance](#) recommends that the EP closely examine proposed new reporting formats, establish closer contacts with relevant energy organisations and bodies, and identify opportunities for streamlining the large variety of EU organisations responsible for energy research and innovation.

The EP plenary debated the Strategy on 25 February 2015 with Maroš Šefčovič, Vice-President for Energy Union. EP President Martin Schulz welcomed the Strategy, which he expects to strengthen Europe in the aftermath of the crisis. The EP will now consider the Strategy within the ITRE Committee to prepare its opinion.

Member State and stakeholder positions

Member States

Germany supports specific governance to achieve the 2030 climate and energy targets and calls for more coordination of national energy policies. In contrast, the UK and the Czech Republic called for a 'light-touch and non-legislative' approach.

Poland supports collective purchasing of gas, but Germany and other Western European countries find it incompatible with the liberalisation of gas markets in Europe. Norway, a major supplier of gas to the EU, has also voiced opposition to common gas purchasing.

Hungary opposes the proposed involvement of the Commission in intergovernmental energy agreements. On 17 February 2015, the country agreed modifications to its natural-gas supply contracts with Russia.

Stakeholders

Markus J. Beyrer, Director General of [BusinessEurope](#) supports the Strategy and its holistic approach, and calls for concrete action on high energy prices that undermine the competitiveness of European industry.

Józef Niemiec, Deputy General Secretary of the [European Trade Union Confederation](#) considers the Energy Union a project with 'multiple potential benefits for industry, jobs, consumers and our climate'. He suggests that employment aspects must be part of planning and implementation, so that 'workers are able to benefit from new job opportunities, and have alternatives in place when jobs are lost'.

[Zero Emissions Platform](#) advocates CO₂ transport and storage infrastructure for carbon capture and storage (CCS). Scottish Carbon Capture and Storage, an academic CCS research group, points out that substantial transport of CO₂ across borders and CO₂ storage will be needed, due to the geological and geographic conditions in Europe.

The [European Wind Energy Association](#) advocates grid investments to create an 'energy internet'. It sets out [five priorities](#) to facilitate the build-up of renewable energies and improve conditions for investors.

The European Alliance of Companies for Energy Efficiency in Buildings ([EuroACE](#)) finds that the Strategy should be stronger on taking action on the existing building stock, in order to boost growth and jobs and strengthen energy security. Bertrand Cazes, Secretary-General of [Glass for Europe](#) applauds the Strategy's focus on buildings and transport as priority sectors for energy efficiency measures, and welcomes the leveraging of major investments in building renovation through the European Fund for Strategic Investment.

The [European Heat Pump Association](#) welcomes the focus on heating and cooling and the commitment towards energy efficiency and renewable energies, but thinks that too much emphasis is placed on alternative gas suppliers. The [Energy Efficiency Industrial Forum](#) advocates giving priority to energy efficiency, as a way to reduce carbon emissions, create jobs and boost economic growth.

[Brian Ricketts](#), Secretary-General of the European Association for Coal and Lignite, believes that EU policy-makers intend to outlaw coal, and warns that this would be 'a divisive and backwards step for humanity' because 'coal offers progress'.

NGOs

Various environmental NGOs criticise the focus on gas supplies and call for stronger action on promoting renewable energy sources. Brook Riley of [Friends of the Earth Europe](#) said higher emission cuts and a transition away from fossil fuels would be possible if Europe fully exploits the potential of energy savings and renewables. Transport&Environment supports the Strategy, but laments the Commission's failure to set CO₂ limits for lorries and buses.

E3G, a non-profit organisation supporting sustainable development, spells out [six principles](#) for a resilient energy union, calling for consistent and complementary energy and climate strategies, low-carbon investment, integrated infrastructure, stress-testing to ensure energy system resilience, an efficiency-first approach and an Energy Union that goes beyond Europe's borders. E3G sees a contradiction between decarbonisation goals and spending on gas pipelines and liquefied natural gas (LNG) terminals. They see

a risk that this new infrastructure will become 'stranded assets' in the face of falling EU gas demand.

Several NGOs expressed doubts about enhancing security of supply by diversifying gas suppliers and gas supply routes, pointing out that many of the alternative suppliers and supply routes are threatened by regional conflicts and lack of political stability. Amnesty International criticised the EU for cooperating with countries that have poor human right records, without condemning human rights violations.

Expert and analyst views

In 2014, the International Energy Agency (IEA) published a [report](#) on the EU's energy policies. The report recommends further integration of the internal energy market, with an interconnected network and competitive retail markets; the timely adoption of market and governance rules for the post-2020 climate and energy framework, with priority on energy efficiency; a strong carbon market and support for all low-carbon technologies. These points seem to have been taken up in the Strategy. The IEA recommendation on enhancing EU-wide cooperation on nuclear power is included, but restricted to Member States that choose to use nuclear power.

The [Jacques Delors Institute](#) published an extensive report which analyses EU energy policy, and proposes short-term actions and building blocks for the Energy Union. It views the Energy Union as a project for peace, as energy security reduces the risks of conflict.

The [Centre for European Policy Studies](#) (CEPS) identifies some risks in the Energy Union. First, it might remain a bureaucratic attempt to repackage the internal energy market agenda. Second, Member States may use the Energy Union to request EU funding for projects they should pay for themselves. Third, it may become a platform for anti-Russian sentiment and action. On common purchasing, CEPS also [proposes](#) to consider creating a private company to aggregate the demand of importers, following the example of Japanese utilities.

[Georg Zachmann](#) (Bruegel) argues that there is no place for a nationally determined energy mix in a fully integrated European energy market, and suggests that Member States should only have the right to exclude specific energy sources (e.g. nuclear or shale gas). He also argues for mandatory reserve energy supplies (e.g. gas in storage or option contracts with alternative gas suppliers), and for replacing the renewable energy deployment target with an innovation target.

[Jean-Michel Glachant](#) (European University Institute) considers that several pillars of EU energy policy have collapsed due to cheaper than expected fossil fuels, lower energy security and failure of emissions trading, among others. He outlines and analyses several options for a thorough overhaul of EU energy policy.

[Dave Keating](#) (European Voice) considers that the Strategy contains only few policy proposals. While it may not yet be 'the most ambitious energy project since the European Coal and Steel Community', as Maroš Šefčovič described it, it opens the possibility for ambitious action and could be a first step.

Main references

[Elements of Europe's energy union](#) / Georg Zachmann, Bruegel, September 2014

[#EnergyManifesto: A New Energy Policy for the New European Commission?](#) / Jean-Michel Glachant, European University Institute, 2015

[Energy Policies of IEA Countries: European Union 2014 Review](#) / International Energy Agency, December 2014

[Energy supply in the EU28](#) / European Parliamentary Research Service, June 2014

[EU energy governance for the future](#) / European Parliament, Policy Department A, January 2015

[Europe's energy security – is the Energy Union the answer?](#) / Annika Hedberg, European Policy Centre, January 2015

[From the European Energy Community to the Energy Union: a policy proposal for the short and the long term](#) / Sami Andoura and Jean-Arnold Vinois, Jacques Delors Institute, January 2015

[Six principles for a resilient energy union delivering energy and climate security for Europe](#) / Jonathan Gaventa et al., E3G Discussion Paper, February 2015

[The cost of non-Europe in the Single Market for energy](#) / Micaela Del Monte, European Added Value Unit, European Parliament, June 2013

[The EU's energy security made urgent by the Crimean crisis](#) / European Parliament DG EXPO, 2014.

Endnotes

¹ Supply and demand would be matched in space by transport across borders, and in time by storage or shifting demand to times of higher supply and lower prices (by using smart grids and demand response).

² Benefits of an integrated European energy market, July 2013, Booz & Co.

³ At present, obtaining the necessary permits can take between 10 and 13 years, on average.

⁴ Connecting Europe Facility (CEF), European Structural and Investment Funds (ESIF), and European Fund for Strategic Investment (EFSI).

⁵ Euratom is active in nuclear energy research, the development of security standards and the peaceful use of nuclear energy. The Euratom Supply Agency, established in 1960, aims to ensure a regular and equitable supply of nuclear fuel, through right of option on materials produced in the Community and an exclusive right to conclude supply contracts. This model is justified by the special circumstances surrounding nuclear material, and cannot simply be applied to other energy sources.

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